

1976 ANNUAL REPORT OF THE BOARD OF
TRUSTEES OF THE FEDERAL HOSPITAL
INSURANCE TRUST FUND

COMMUNICATION

FROM

THE BOARD OF TRUSTEES
FEDERAL HOSPITAL INSURANCE
TRUST FUND

TRANSMITTING

THE 1976 ANNUAL REPORT OF THE BOARD, PURSUANT TO
SECTION 1817(b) OF THE SOCIAL SECURITY ACT, AS
AMENDED



MAY 24, 1976.—Referred to the Committee on Ways and Means
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976 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF
THE FEDERAL HOSPITAL INSURANCE TRUST FUND

LETTER

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FEDERAL HOSPITAL INSURANCE
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THE 1976 ANNUAL REPORT OF THE BOARD (11TH REPORT) PUR-
SUANT TO THE PROVISIONS OF SECTION 1817(b) OF THE SOCIAL
SECURITY ACT, AS AMENDED

(III)

LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL HOSPITAL INSURANCE TRUST FUND,
Washington, D.C., May 24, 1976.

The SPEAKER OF THE HOUSE OF REPRESENTATIVES,
Washington, D.C.

SIR: We have the honor to transmit to you the 1976 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund (the 11th such report), in compliance with the provisions of section 1817(b) of the Social Security Act.

Respectfully,

WILLIAM E. SIMON,
Secretary of the Treasury,
Managing Trustee of the Trust Fund.

W. J. USERY, Jr.,
Secretary of Labor.

DAVID MATHEWS,
Secretary of Health,
Education, and Welfare.

JAMES B. CARDWELL,
Commissioner of Social Security.

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CONTENTS

	Page
The board of trustees	1
Highlights	1
Nature of the trust fund	1
Summary of the operations of the trust fund, fiscal year 1975	6
Expected operations and status of the trust fund during the period July 1, 1975 to December 31, 1978	10
Actuarial status of the trust fund	15
Conclusion	19
Appendices:	
A. Actuarial methodology and principal assumptions for the hospital insurance cost estimates	21
B. Determination and announcement of the 1976 inpatient hospital deductible	29
C. Determination and announcement of the hospital insurance pre- mium rate for the uninsured aged for the 12-month period beginning July 1, 1976	31

(IX)

1976 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

THE BOARD OF TRUSTEES

The Federal Hospital Insurance Trust Fund, established on July 30, 1965, is held by the Board of Trustees under the authority of section 1817(b) of the Social Security Act, as amended. The Board is comprised of three members who serve in an ex officio capacity. The members of the Board are the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare. The Secretary of the Treasury is designated by law as the Managing Trustee. The Commissioner of Social Security is Secretary of the Board. The Board of Trustees reports to the Congress once each year in compliance with section 1817(b)(2) of the Social Security Act. This Report is the annual report for 1976, the eleventh such report.

HIGHLIGHTS

(a) Disbursements of the hospital insurance trust fund were \$10.6 billion in fiscal year 1975, an increase of 32 percent over fiscal year 1974. Most of this increase was due to substantial increases in the cost of institutional health care.

(b) Income to the trust fund amounted to \$12.6 billion, representing an increase of 8 percent in fiscal year 1975 over 1974. The majority of this increase was due to higher average earnings for persons in covered employment and increases in the maximum taxable amount of annual earnings.

(c) The trust fund increased \$2 billion, to \$9.9 billion at the end of fiscal year 1975. The effective annual rate of interest earned by the assets of the hospital insurance trust fund during fiscal year 1975 was 7.2 percent.

(d) The Secretary of Health, Education, and Welfare promulgated a \$104 inpatient deductible for calendar year 1976 and a \$45 monthly premium for noninsured enrollees for the 12-month period beginning July 1976.

(e) Approximately 22 million persons aged 65 and over were protected by the hospital insurance program in July 1975. This represents about 96 percent of the aged population. An additional 2.2 million disabled beneficiaries had protection in the same month.

(f) The current financing schedule of the program over the next 10 years is adequate to provide for program expenditures. However, tax rates scheduled after the mid-1980's are not sufficient to sustain the system, resulting in an average 25-year deficit of 0.64 percent of taxable payroll.

NATURE OF THE TRUST FUND

The Federal Hospital Insurance Trust Fund was established on July 30, 1965, as a separate account in the United States Treasury to hold the amounts accumulated under the hospital insurance

program. All the financial operations which relate to the system of hospital insurance are handled through this fund.

The major sources of receipts of this fund are (1) amounts appropriated to it under permanent appropriation on the basis of contributions paid by workers and their employers, and by individuals with self-employment income, in work covered by the hospital insurance program and (2) amounts deposited in it representing contributions paid by workers employed by State and local governments and by such employers with respect to work covered by the program. The coverage of the hospital insurance program includes workers covered under the old-age, survivors, and disability insurance program and those covered under the railroad retirement program.

All employees, and their employers, in employment covered by the program are required to pay contributions with respect to the wages of individual workers (cash tips, covered as wages beginning in 1966 under the 1965 amendments, are an exception to this; employees pay contributions with respect to cash tips, but employers do not). All covered self-employed persons are required to pay contributions with respect to their self-employment income.

In general, an individual's contributions are computed on annual wages or self-employment income, or both wages and self-employment income combined, up to a specified maximum annual amount with the contributions being determined first on the wages and then on any self-employment income necessary to make up the annual maximum amount.

The contribution rates applicable to taxable earnings in each of the calendar years 1966 and later are shown in table 1. For 1977 and later, the contribution rates shown are the rates scheduled in the provisions of present law. The maximum amount of annual earnings taxable in each year, 1966-76, is also shown. Beginning with 1975, the maximum amount of earnings taxable each year is determined in the preceding year under the automatic increase provisions in Section 230 of the Social Security Act, unless modified by intervening Congressional action.

Except for amounts received by the Secretary of the Treasury under State agreements (to effectuate coverage under the program for State and local government employees) and deposited directly in the trust fund, all contributions are collected by the Internal Revenue Service and deposited in the general fund of the Treasury as internal revenue collections; then, on an estimated basis, the contributions received are immediately and automatically appropriated to the trust fund. The exact amount of contributions received is not known initially since (1) hospital insurance contributions, (2) old-age, survivors, and disability insurance contributions, and (3) individual income taxes are not separately identified in collection reports received by the Treasury Department.

TABLE 1.—CONTRIBUTION RATES AND MAXIMUM TAXABLE AMOUNT OF ANNUAL EARNINGS

Calendar years	Maximum taxable amount of annual earnings	Contribution rates (percent of taxable earnings)	
		Employees and employers, each	Self-employed
Past experience:			
1966	\$6,600	0.35	0.35
1967	6,600	.50	.50
1968-71	7,800	.60	.60
1972	9,000	.60	.60
1973	10,800	1.00	1.00
1974	13,200	.90	.90
1975	14,100	.90	.90
1976	15,300	.90	.90
Changes scheduled in present law:			
1977	(¹)	.90	.90
1978-80	(¹)	1.10	1.10
1981-85	(¹)	1.35	1.35
1986 and later	(¹)	1.50	1.50

¹ Subject to automatic increase.

Periodic adjustments are subsequently made to the extent that the estimates are found to differ from the amounts of contributions actually payable on the basis of reported earnings.

An employee who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum can receive a refund of the contributions he paid on such excess wages. The amount of contributions subject to refund for any period is a charge against the trust fund.

Another source from which receipts of the trust fund are derived is interest received on investments held by the fund. The investment procedures of the fund are described later in this section.

The income and expenditures of the trust fund are also affected by the provisions of the Railroad Retirement Act which provide for a system of coordination and financial interchange between the railroad retirement program and the hospital insurance program.

Sections 217(g) and 229(b) of the Social Security Act authorize annual reimbursements from the general fund of the Treasury to the hospital insurance trust fund for any costs arising from the granting of noncontributory wage credits for military service, according to periodic determinations made by the Secretary of Health, Education, and Welfare.

Section 231 of the Social Security Act authorizes reimbursement from the general fund of the Treasury to the hospital insurance trust fund for any costs arising from the granting of noncontributory wage credits to individuals who were interned during World War II at a place within the United States operated by the Federal Government for the internment of persons of Japanese ancestry.

Under Section 103 of the Social Security Amendments of 1965, hospital insurance benefits are provided to certain uninsured persons aged 65 and over. Such payments are made initially from the hospital insurance trust fund, with reimbursement from the general fund of the Treasury for the costs, including administrative expenses, of the payments. The reimbursements so made are on a provisional basis and are subject to adjustment, with appropriate interest allowances, as the actual experience develops and is analyzed.

Section 1818 of the Social Security Act provides that certain persons not eligible for hospital insurance protection either on an insured basis or on the uninsured basis described in the previous paragraph may obtain protection by enrolling in the program and paying a monthly premium.

Section 201(i) of the Social Security Act authorizes the Managing Trustee to accept and deposit in the trust fund unconditional money gifts or bequests made for the benefit of the fund or any activity financed through the fund.

Expenditures for benefit payments and administrative expenses under the hospital insurance program are paid out of the trust fund. All expenses incurred by the Department of Health, Education, and Welfare and by the Treasury Department in carrying out the provisions of Title XVIII of the Social Security Act pertaining to the hospital insurance program and of the Internal Revenue Code relating to the collection of contributions, are charged to the trust fund. The Secretary of Health, Education, and Welfare certifies benefit payments to the Managing Trustee, who makes the payment from the trust fund in accordance therewith.

Hospitals, at their option, are permitted to combine their billing for both hospital and physician components of radiology and pathology services rendered hospital inpatients by hospital-based physicians. Where hospitals elect this billing procedure, payments are made initially from the hospital insurance trust fund, with reimbursement from the supplementary medical insurance trust fund. The reimbursements so made are on a provisional basis and are subject to adjustment with appropriate interest allowances, as the actual experience develops and is analyzed.

The Social Security Amendments of 1967 and 1972 authorize the Secretary of Health, Education, and Welfare to develop and conduct a broad range of experiments and demonstration projects designed to determine various methods of increasing efficiency and economy in providing health care services, while maintaining the quality of such services, under the hospital insurance and supplementary medical insurance programs. The costs of such experiments and demonstration projects are paid out of the hospital insurance and supplementary medical insurance programs.

Congress has authorized expenditures from the trust funds for construction, rental, and lease or purchase contract of office buildings and related facilities for the Social Security Administration. Both the capital costs of construction financed directly from the trust funds and the rental, lease, or purchase contract costs of acquiring facilities are included in trust fund expenditures. In 1974, construction of several large facilities was begun under purchase contract authority, wherein initial capital costs are borne by the private sector. Under this method of facilities acquisition, trust fund expenditures for use and ultimate Government ownership of a facility are made over periods of from 10 to 30 years. Whatever the manner of acquisition, the net worth of facilities and other fixed capital assets is not carried in the statements of the operations of the trust fund presented in this report. This is because the value of fixed capital assets does not represent funds available for benefit or administrative expenditures, and therefore is not viewed as being a consideration in assessing the actuarial status of the funds.

That portion of the trust fund which, in the judgment of the Managing Trustee, is not required to meet current expenditures for benefits and administration is invested, on a daily basis, in interest-bearing obligations of the U.S. Government (including special public-debt obligations described below), in obligations guaranteed as to both principal and interest by the United States, or in certain federally sponsored agency obligations that are designated in the laws authorizing their issuance as lawful investments for fiduciary and trust funds under the control and authority of the United States or any officer of the United States. These obligations may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price.

The Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust fund. The law requires that such special public-debt obligations shall bear interest at a rate based on the average market yield (computed by the Managing Trustee on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States forming a part of the public debt which are not due or callable until after the expiration of 4 years from the end of such calendar month.

SUMMARY OF THE OPERATIONS OF THE TRUST FUND, FISCAL YEAR 1975

A statement of the income and disbursements of the Federal structure, rental, and lease or purchase contracts of office buildings Hospital Insurance Trust Fund during fiscal year 1975 and of the assets of the fund at the beginning and the end of the fiscal year is presented in table 2. Comparable amounts for fiscal year 1974 are also shown in the table.

The total assets of the trust fund amounted to \$7,914 million on June 30, 1974. During fiscal year 1975, total receipts amounted to \$12,568 million and total disbursements were \$10,612 million. The assets of the trust fund thus increased \$1,956 million during the year to a total of \$9,870 million on June 30, 1975.

Included in total receipts during fiscal year 1975 were \$10,132 million representing contributions appropriated to the trust fund and \$1,214 million representing amounts received by the Secretary of the Treasury in accordance with State agreements for coverage of State and local government employees and deposited in the trust fund. As an offset, \$55 million was transferred from the trust fund into the Treasury as repayment for the estimated amount of contributions subject to refund to employees who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum earnings base.

Net contributions amounted to \$11,291 million, representing an increase of 6 percent over the amount for the preceding fiscal year. This growth in contribution income resulted primarily from (1) the higher level of taxable earnings and (2) the two increases in the maximum annual amount of earnings taxable—from \$10,800 to \$13,200 and from \$13,200 to \$14,100—that became effective on January 1, 1974, and January 1, 1975, respectively. Although the first increase in the maximum annual amount of earnings taxable, from \$10,800 to \$13,200, became effective in 1974, the first full fiscal year during which earnings between \$10,800 and \$13,200 were taxable was 1975.

Reference has been made in an earlier section to provisions of the Social Security Act under which certain persons aged 65 and over but not otherwise eligible for hospital insurance protection may obtain such protection by enrolling in the program and paying a monthly premium. Premiums collected from such voluntary participants in fiscal year 1975 amounted to about \$6 million.

In accordance with the provisions of the Railroad Retirement Act which coordinate the railroad retirement and the hospital insurance programs and which govern the financial interchange arising from the allocation of costs between the two systems, the Railroad Retirement Board and the Secretary of Health, Education, and Welfare determined that a transfer of \$130,636,000 from the railroad retirement account to the hospital insurance trust fund would place this fund in the same position, as of June 30, 1974, as it would have been if railroad employment had always been covered under the Social Security Act.

This amount was transferred to the trust fund in September 1974, together with interest to the date of transfer amounting to \$1,861,000.

In accordance with provisions for annual reimbursement from the general fund of the Treasury for the costs of granting noncontributory credits for military service, the Secretary of Health, Education, and Welfare made a determination in 1970 of the level annual appropriations to the trust fund necessary to amortize over a 44-year period, beginning in fiscal year 1972, the estimated total additional costs, for military service performed before 1957, arising from payments that have been made since July 1966 and that will be made in future years, taking into account the amounts of annual appropriations in fiscal years 1966-71 that have been deposited into the trust funds. The annual amount resulting from this determination was \$48 million. Thus, a reimbursement amounting to \$48 million was received by the trust fund in December 1974.

Again, reference has been made earlier to provisions under which the hospital insurance trust fund is to be reimbursed from the general fund of the Treasury for costs of paying benefits under this program in behalf of certain uninsured persons. The reimbursement in fiscal year 1975 amounted to \$482 million, consisting of \$470 million for benefit payments, \$11 million for administrative expenses, and \$1 million due the trust fund for interest on adjustments to costs in prior fiscal years.

In accordance with provisions referred to in an earlier section under which money gifts or bequests may be deposited in the trust fund, the trust fund received gifts amounting to about \$8,000 in fiscal year 1975.

The remaining \$608 million of receipts consisted almost entirely of interest on the investments of the trust fund.

Of the \$10,612 million in total disbursements, \$10,359 million represented benefits paid directly from the trust fund for health services covered under Title XVIII of the Social Security Act. As offsets to benefit payments, transfers were made from the supplementary medical insurance trust fund amounting to \$6 million for certain costs of radiology and pathology services that were paid initially from the hospital insurance trust fund but that were liabilities of the supplementary medical insurance trust fund. Net benefit payments from the trust fund in fiscal year 1975, therefore, amounted to \$10,353 million, an increase of 32.6 percent over the corresponding amount paid in fiscal year 1974. An additional \$2 million in disbursements constituted payment for costs of experiments and demonstration projects in providing health care services.

The remaining \$256 million of disbursements was for net administrative expenses. Administrative expenses are allocated and charged directly to each of the four trust funds—old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance—on the basis of provisional estimates. Periodically, as actual experience develops and is analyzed, adjustments to the allocations of administrative expenses and costs of construction for prior periods are effected by transfers among the four trust funds, with appropriate interest allowances.

Table 3 compares the actual experience in fiscal year 1975 with the estimates presented in the 1974 and 1975 annual reports. Reference was made in an earlier section to the appropriation of contributions to the trust funds on an estimated basis, with subsequent periodic

adjustments to account for differences from the amounts of contributions actually payable on the basis of reported earnings. In interpreting the figures in table 3, it should be noted that the "actual" amount of contributions in fiscal year 1975 reflects the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions in fiscal year 1975 does not reflect adjustments to contributions for fiscal year 1975 that were to be made after June 30, 1975. The estimated contributions in both the 1974 and 1975 annual reports were quite close to the actual experience. Actual benefit payments were 10 percent higher than estimated in the 1974 report and only one percent higher than estimated in the 1975 report.

The assets of the trust fund at the end of fiscal year 1975 totaled \$9,870 million, consisting of \$9,761 million in the form of obligations of the U.S. Government or of federally sponsored agency obligations, and an undisbursed balance of \$109 million. Table 4 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1974 and 1975.

The net increase in the par value of the investments held by the fund during fiscal year 1975 amounted to \$1,897 million. New securities at a total par value of \$14,111 million were acquired during the fiscal year, through the investment of receipts and the reinvestment of funds made available from the redemption of securities. The par value of securities redeemed during the fiscal year was \$12,215 million. Included in these amounts is \$12,048 million in certificates of indebtedness that were acquired and redeemed within the fiscal year.

The effective annual rate of interest earned by the assets of the hospital insurance trust fund during fiscal year 1975 was 7.2 percent. The interest rate on public-debt obligations issued for purchase by the trust fund in June 1975 was 7% percent, payable semiannually.

TABLE 2.—STATEMENT OF OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEARS 1974 AND 1975

	Fiscal year—	
	1974	1975
Total assets of the trust fund, beginning of year.....	\$4, 368, 666	\$7, 913, 699
Receipts:		
Contributions:		
Appropriations.....	9, 595, 278	10, 131, 791
Deposits arising out of State agreements.....	1, 099, 424	1, 214, 297
Gross contributions.....	10, 694, 702	11, 346, 088
Less payment into the Treasury for contributions subject to refund.....	92, 432	55, 000
Net contributions.....	10, 602, 270	11, 291, 088
Premiums collected from voluntary participants.....	4, 281	5, 685
Transfer from railroad retirement account.....	99, 182	132, 497
Reimbursement from general fund of Treasury for costs of—		
Noncontributory credits for military service.....	48, 000	48, 000
Benefits for uninsured persons:		
Benefit payments.....	445, 000	470, 000
Administrative expenses.....	8, 101	11, 353
Gross reimbursement for costs of benefits for uninsured persons.....	453, 101	481, 353
Interest on adjustments to costs in prior fiscal years ¹	-2, 321	1, 052
Net reimbursement for costs of benefits for uninsured persons.....	450, 780	482, 405
Interest:		
Interest on investments.....	405, 523	607, 134
Interest on amounts of interfund transfers due to adjustment in allocation of administrative expenses and construction costs ²	-269	1, 054
Total interest.....	405, 254	608, 189
Gifts.....	(³)	8
Total receipts.....	11, 609, 767	12, 567, 872
Disbursements:		
Benefit payments:		
Paid directly from the trust fund for costs of health services.....	7, 811, 980	10, 359, 011
Less transfers from the supplemental medical insurance trust fund for reimbursement of payments made initially from the hospital insurance trust fund for costs of radiology and pathology services ⁴	6, 000	6, 000
Net benefit payments.....	7, 805, 980	10, 353, 011
Costs of experiments and demonstration project ⁴	707	2, 379
Administrative expenses:		
Department of Health, Education and Welfare ⁵	243, 893	258, 613
Treasury Department.....	11, 142	7, 808
Construction of facilities for Social Security Administration.....	172	206
Interfund transfers due to adjustment in allocation of—		
Administrative expenses ⁶	2, 827	-10, 690
Construction costs ⁶	38	205
Gross administrative expenses.....	258, 066	256, 142
Less receipts from sale of supplies, materials, etc.....	18	
Net administrative expenses.....	258, 048	256, 142
Total disbursements.....	8, 064, 735	10, 611, 532
Net addition to the trust fund.....	3, 545, 032	1, 956, 340
Total assets of the trust fund, end of year.....	7, 913, 699	9, 870, 039

¹ A positive figure represents a transfer of interest to the hospital insurance trust fund from the general fund of the Treasury. A negative figure represents a transfer of interest from the hospital insurance trust fund to the general fund of the Treasury.

² A positive figure represents a transfer of interest to the hospital insurance trust fund from the other social security trust funds. A negative figure represents a transfer of interest from the hospital insurance trust fund to the other social security trust funds.

³ A gift amounting to \$12 was received in fiscal year 1974.

⁴ For explanation, see text.

⁵ Includes administrative expenses of the intermediaries.

⁶ A positive figure represents a transfer from the hospital insurance trust fund to the other social security trust funds. A negative figure represents a transfer to the hospital insurance trust fund from the other social security trust funds.

TABLE 3.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND, FISCAL YEAR 1975

Item	Comparison of actual experience with estimates for fiscal year 1975 published in—				
	1975 report			1974 report	
	Actual amount	Estimated amount	Actual as percentage of estimate	Estimated amount	Actual as percentage of estimate
Net contributions.....	\$11,291	\$11,258	100	\$11,264	100
Benefit payments.....	10,353	10,231	101	9,436	110

TABLE 4.—ASSETS OF THE HOSPITAL INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1974 AND 1975

	June 30, 1974		June 30, 1975	
	Par value	Book value ¹	Par value	Book value ¹
Investment in public-debt obligation sold only to this fund (special issues):				
Notes:				
5½-percent, 1979.....	\$537,999,000	\$537,999,000.00	\$537,999,000	\$537,999,000.00
6½-percent, 1978.....	931,182,000	931,182,000.00	931,182,000	931,182,000.00
6½-percent, 1980.....	2,159,064,000	2,159,064,000.00	2,159,064,000	2,159,064,000.00
7½-percent, 1977.....	534,947,000	534,947,000.00	368,194,000	368,194,000.00
Bonds:				
7½-percent, 1981.....			165,760,000	165,760,000.00
7½-percent, 1982.....			165,760,000	165,760,000.00
7½-percent, 1983.....			165,760,000	165,760,000.00
7½-percent, 1984.....			165,760,000	165,760,000.00
7½-percent, 1985.....			165,759,000	165,759,000.00
7½-percent, 1986.....			165,759,000	165,759,000.00
7½-percent, 1987.....			165,760,000	165,760,000.00
7½-percent, 1988.....			165,760,000	165,760,000.00
7½-percent, 1989.....			165,760,000	165,760,000.00
7½-percent, 1990.....			571,444,000	571,444,000.00
7½-percent, 1981.....	405,685,000	405,685,000.00	405,685,000	405,685,000.00
7½-percent, 1982.....	405,685,000	405,685,000.00	405,685,000	405,685,000.00
7½-percent, 1983.....	405,685,000	405,685,000.00	405,685,000	405,685,000.00
7½-percent, 1984.....	405,685,000	405,685,000.00	405,685,000	405,685,000.00
7½-percent, 1985.....	405,685,000	405,685,000.00	305,685,000	405,685,000.00
7½-percent, 1986.....	405,685,000	405,685,000.00	405,685,000	405,685,000.00
7½-percent, 1987.....	405,685,000	405,685,000.00	405,685,000	405,685,000.00
7½-percent, 1988.....	405,684,000	405,684,000.00	405,684,000	405,684,000.00
7½-percent, 1989.....	405,684,000	405,684,000.00	405,684,000	405,684,000.00
Total public-debt obligations sold only to this fund (special issues).....	7,814,355,000	7,814,355,000.00	9,710,883,000	9,710,883,000.00
Investments in federally-sponsored agency obligations:				
Participation certificates:				
Federal Assets Liquidation Trust-Government National Mortgage Association: 5.20-percent, 1982.....	50,000,000	50,000,000.00	50,000,000	50,000,000.00
Total investments.....	7,864,355,000	7,864,355,000.00	9,760,883,000	9,760,883,000.00
Undisbursed balances.....		49,343,661.03		109,155,746.55
Total assets.....		7,913,698,661.03		9,870,038,746.55

¹ Par value, plus unamortized premium, less discount outstanding.

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING THE PERIOD JULY 1, 1975, TO DECEMBER 31, 1978

The expected operations of the trust fund during fiscal year 1976, the transition quarter July through September of 1976, and fiscal years 1977-78 (on the new October through September basis) are shown in Table 5, together with the past experience of the program.

This statement of expected operations of the trust fund through December 31, 1978 is based on the intermediate set of projection assumptions labelled alternative II which are presented in detail in appendix A of this report.

The estimates of income from hospital insurance contributions are at a considerably higher level during the period projected than during the earlier years of the program, primarily as a result of the increased hospital insurance tax rates beginning January 1, 1973 and the further increase scheduled in the law to be effective beginning January 1, 1978. Income during successive years of the projection is estimated by projecting increases in (1) the earnings bases, in accordance with the automatic adjustment provisions; (2) the number of persons working in covered employment; and (3) the average earnings for workers in covered employment.

Income received through the financial interchange between the railroad retirement account and the trust fund under the provisions of the Railroad Retirement Act is estimated on the same basis as income from hospital insurance contributions. Estimates of the corresponding outgo are included in the disbursement items.

TABLE 5.—OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEARS 1967-78

[In millions of dollars]

Fiscal year ¹	Income						Disbursements			Trust fund		
	Payroll taxes	Transfers from railroad retirement account	Reimbursement for uninsured persons	Premiums from voluntary enrollees	Reimbursement for military wage credits	Interest on investments	Total income	Benefit payments	Administrative expenses ²	Total disbursements	Net increase in fund	Fund at end of year
Historical data:												
1967.....	2,689	16	327	-----	11	46	3,089	2,508	89	2,597	492	1,343
1968.....	3,514	44	273	-----	11	61	3,902	3,736	79	3,815	88	1,431
1969.....	4,423	54	749	-----	22	96	5,344	4,654	104	4,758	586	2,017
1970.....	4,785	64	617	-----	11	137	5,614	4,804	149	4,953	661	2,677
1971.....	4,898	66	863	-----	11	180	6,018	5,442	150	5,592	426	3,103
1972.....	5,226	66	503	-----	48	188	6,031	6,108	167	6,276	-245	2,859
1973.....	7,663	63	381	-----	48	196	8,352	6,648	194	6,842	1,510	4,369
1974.....	10,602	99	451	4	48	405	11,610	7,806	259	8,065	3,545	7,914
1975.....	11,291	132	481	6	48	609	12,568	10,353	259	10,612	1,956	9,870
Projection:												
1976.....	12,096	138	610	8	48	738	13,638	12,184	333	12,517	1,121	10,991
Transition.....	3,292	139	³ 0	2	0	200	3,633	3,329	87	3,416	217	11,208
1977.....	13,998	⁴ 0	³ 803	10	141	800	15,752	15,150	325	15,475	277	11,485
1978.....	18,115	⁴ 205	674	13	141	886	20,034	17,721	389	18,110	1,924	13,409

¹ For 1967 through 1976, fiscal years cover the interval from July 1 through June 30; the 3-mo. interval from July 1, 1976, through Sept. 30, 1976 is labelled the "transition" quarter; fiscal years 1977 and 1978 cover the interval from Oct. 1 through Sept. 30.

² Includes costs of experiments and demonstration projects.

³ The 1977 transfer is for benefits and administrative expenses during the 5-quarter period covering the "transition" quarter and fiscal year 1977.

⁴ The 1978 transfer is for contributions during the 5-quarter period covering the "transition" quarter and fiscal year 1977.

Estimated income to the trust fund appropriated from general revenues, to reimburse the program for the cost of noninsured persons for coverage which is financed through general revenues, is the same as the estimates of disbursements for such persons, net of corrections for differences between costs and amounts transferred for previous years. Premium income and disbursements for other noninsured persons over age 65 who may enroll in the hospital insurance program on a voluntary basis are based on an estimated enrollment of 16 thousand in fiscal year 1976.

Reimbursement from general revenues for military wage credits is projected at \$141 million in each year. This is based on the determination made by the Secretary of Health, Education, and Welfare in 1975 of the level annual appropriations necessary to amortize the additional costs arising from these wage credits.

The investment of new assets received during fiscal years 1976-78 is assumed to be in the form of special public-debt obligations bearing interest rates of 7% percent, payable semiannually. The average prospective rate of interest on the assets held by the hospital insurance trust fund on June 30, 1975 was 7.1 percent.

Disbursements for benefits and administrative expenses are projected to increase sharply in fiscal years 1976-78, primarily as a result of the high rate of increase in hospital costs reimbursable under the program. The expenditures for benefit payments shown in Table 5 are slightly higher than those shown in the federal budget for fiscal year 1977, since they do not reflect the implementation of certain proposed changes in regulations which were included in the budget.

The actual operation of the hospital insurance program is, in general, organized on a calendar year basis. Earnings subject to taxation and the applicable tax rates are established by calendar year, as are the inpatient deductible and other cost sharing amounts. The projected operations of the trust fund on a calendar year basis are shown in Table 6, according to the same basis as used in Table 5. The following discussion of the financing of the program is on a calendar year basis.

The ratios of the balance in the trust fund at the beginning of each calendar year to the total disbursements during that year are shown in Table 7 for past years and as projected through 1978. The ratio of the fund to such disbursements grew gradually until it reached approximately the level of one half of a year's expenditures as of the beginning of 1971. After dropping slightly during both of the following two years, it increased to 69 percent in 1974 and 79 percent in 1975. The ratio is projected to decline during the next three years to 57 percent at the beginning of 1978.

TABLE 6.—OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING CALENDAR YEARS 1966-78

[In millions of dollars]

Calendar year	Income						Total income	Benefit payments	Disbursements Administrative expenses ¹	Total disbursements	Trust fund Net increase in fund	Fund at end of year
	Payroll taxes	Transfers from railroad retirement account	Reimbursement for uninsured persons	Premiums from voluntary enrollees	Reimbursement for military wage credits	Interest on investments						
Historical data:												
1966	1,858	16	26		11	32	1,943	891	108	999	944	944
1967	3,152	44	301		11	51	3,559	3,353	77	3,430	129	1,073
1968	4,116	54	1,022		22	74	5,287	4,179	99	4,277	1,010	2,083
1969	4,473	64	617		11	113	5,279	4,739	118	4,857	422	2,505
1970	4,881	66	863		11	158	5,979	5,124	157	5,281	698	3,202
1971	4,921	66	503		48	193	5,732	5,751	150	5,900	-168	3,034
1972	5,731	63	381		48	180	6,403	6,318	185	6,503	-99	2,935
1973	9,944	99	451	2	48	278	10,821	7,057	232	7,289	3,532	6,467
1974	10,844	132	471	5	48	523	12,024	9,099	272	9,372	2,652	9,119
1975	11,502	138	621	7	48	664	12,980	11,315	266	11,581	1,399	10,517
Projection:												
1976	12,727	139	* 0	9	141	561	13,577	13,235	349	13,584	-7	10,510
1977	14,304	* 205	* 803	11	141	754	16,218	15,750	338	16,088	130	10,640
1978	19,200	211	674	13	141	797	21,036	18,397	398	18,795	2,241	12,881

¹ Includes costs of experiments and demonstration projects.

² No transfer is made in 1976 because of the change in transfer dates from December to March. The 1977 transfer is for benefits and administrative expenses during the 15-month period beginning July 1976 and ending September 1977.

³ The 1977 transfer is for contributions during the 15 month period beginning July 1976 and ending September 1977.

TABLE 7.—*Ratio of the fund at the beginning of the year to disbursements during the year for the Hospital Insurance Trust Fund*

<i>Calendar year</i>	<i>Percent ratio</i>
Historical Data:	
1967.....	28
1968.....	25
1969.....	43
1970.....	47
1971.....	54
1972.....	47
1973.....	40
1974.....	69
1975.....	79
Projection:	
1976.....	77
1977.....	65
1978.....	57

ACTUARIAL STATUS OF THE TRUST FUND

Acting on the recommendation of the 1971 Advisory Council, the Board of Trustees has adopted the general principle that the hospital insurance program should be financed in such a way that annual income to the program should be approximately equal to annual outlays of the program plus an amount to maintain a balance in the trust fund approximately equal to one year's expenditures. This principle reflects the view that there is a need for a sizeable fund for the contingency that future income and outgo may differ substantially from projections, but that it is unnecessary and impractical to fully fund the future benefits of workers as they accrue the right to those future benefits.

The projected expenditures under the program, expressed as percentages of taxable payroll, are summarized for selected years over the next 25-year period in table 8. The ratio of expenditures to taxable payroll has increased from 0.95 percent in 1967 to an estimated 1.73 percent in 1975, reflecting both the higher rate of increase in hospital costs than in earnings subject to hospital insurance taxes and the extension of hospital insurance benefits to disabled beneficiaries and persons suffering from chronic renal disease. Further increases in this ratio to 2.26 percent in 1980 and to 4.93 percent in the year 2000 result from the assumed continuation of increases in the cost of institutional health care at a higher rate than increases in taxable earnings (see Appendix A for a description of the methodology and assumptions used in this projection).

The allowances necessary to build the trust fund to the level of a year's disbursements and maintain it at that level, expressed as percentages of taxable payroll, are shown also in table 8. Since the level of the trust fund at the beginning of calendar year 1976 is 77 percent of the projected disbursements during 1976, provision must be made for increasing it to the 100 percent level. This building of the trust fund to the level of a year's disbursements could be accomplished in a single year, in a period of several years, or over the entire 25-year projection period. Because of the many patterns of growth possible, the portion of the allowance necessary to build the trust fund to the level of one year's outgo has been spread evenly over the entire 25-year period, for purposes of display in table 8. The remaining portion of the allowance is necessary to maintain the trust fund at that level from year to year.